Virtual Roundtable Series on COVID-19 Mitigation Efforts #22-
Bank & FinTech partnerships post COVID Part II
September 24th, 2020

Q&A Summary

Questions to Adrian：

1. *Are there any regulatory issues on sharing data for Fintechs through a shared data center?*

I think one is the blacklist data and the second one is the collectibility or the delinquency status of borrowers that is shared on a repository data center. The reason behind this is in Indonesia, you have a BI checking (Bank Indonesia checking) where banks can actually check the collectability of any potential borrowers or the exposure of the borrower in any banks in Indonesia. As FinTech companies, we are not able to access that. It is one of the reasons and actually part of the solution that was provided by the regulators - why not, amongst the Fintech players, develop this through the associations. For example, if a borrower already has existing exposure with Investree and then he or she applies at Modalku, Modalku can obviously see the collectability status of that specific borrower at Investree whether they have been delinquent and have been delinquent for how many days. It enhances the risk modeling or credit assessment for Modalku obviously. So it's a joint information of repository data and has actually helped, especially in this crisis, in terms of risk assessment. Of course, the data that is shared is not the whole name of the borrower. It is based on a unique ID, linking to either a national ID or tax ID for corporates. This is what's available for us to validate and check within the data center.

2. *Will it cause more fragmentation in terms of data collection? Since there are multiple databases, will it be more complicated to do a complete review of a client?*

I think this is the first step. We will have access to information with regards to the FinTech lending but it does not aggregate with the Bank of Indonesia data. The national credit bureau will aggregate all the data within the space. Not all FinTech lending players are a part of the national credit bureau.

Questions to Arvie:

1. What will happen when the big tech companies enter your market? How will it impact the bank-FinTech partnership?

I think this is exactly why we are working with FinTechs. The big techs are around the corner and you want to be able to compete in that world. We are not looking at user experiences and comparing it to other banks. We are looking at big techs and their users experience and that is the benchmark. So because of them, we want to work more with FinTechs and become more like FinTechs with similar capabilities. And there are various degrees in terms of partnership and ideally, it needs to be symbiotic. It is more sustainable and natural if we are both a FinTech and a bank.

Questions to Kelvin:

1. Has the COVID-19 led to a greater acceptance of the utilization of technologies among the regulators?

Kelvin: I believe that COVID-19, the maturity of the FinTechs, as well as the development of infrastructure in Southeast Asia have accelerated the regulatory changes together.

Questions to All ：

1. *Reflecting on the lessons learned during the pandemic, what would you do differently?*

Adrian: What we have done differently was accelerated our regional expansion. In the Philippines as well as Thailand, I think if we had done it sooner rather than later, we would have had more attraction. This is part of the strategy that we decided on. It also strengthened our capabilities and enabled us to identify better industries that have remained resilient. It was a good move not to go to aggressively in new markets, especially during uncertainties. We took a step back to strengthen the analysis market.

Kelvin: We have been fortunate. Although our starting point was in Singapore, we actually expanded in the region a lot earlier since the size of Singaporean market is too small. Obtaining the Malaysian license when they launched it in 2017 has made us the biggest regional player very quickly. As we scale and move from a fintech startup to a full FinTech firm, we've specialized not just data science analytics and data engineering capabilities but also treasury apps. We should have done earlier probably was deliberate investments and grooming of talent that we needed in the organization. We didn't realize how much more management attention that we should have put in. We later realized that as a company scales, we need to build our additional leadership layer and we have truly struggled to hiring. Although senior bankers might have technical skills but the cooperation culture needs a bit of time to be adjusted to. On the other hand, if you hire someone young that is the right culture fit, they often do not have enough functional skills or experience within banking. It takes time to actually groom the generation of Fintech leaders or talents. Since we are the first generation FinTech players, we are facing a shortage in human resources. So it is something that we wished that we have invested a lot more in 2017 - 2018 rather than starting from 2019.

Mohamed: We had been a bit more foresight. We're taking a more merchant-centered approach. We really try to digitize the ecosystem and have accelerated the pace this year. I also echo Kelvin's point - the talent acquisition is not easy. We're all adapting to this new working environment, such as working from home. It enhances productivity to some extent, but also brings challenges. We would have invested a bit more in our internal infrastructure in terms of team management and collaborations. But I'm very optimistic about the coming future, because this period has allowed us all to focus on our core competencies and streamline what we want to do.

Arvie: The Union Bank has always been talking about technology and bank transforming to be more like a fintech and trying to engage our corporate and SME clients with Fintech. We have been advocating a lot of this beforehand. Still, I wish that we had accelerated or tried more to convince people to move a little faster - we all thought that we had little more time to go from cash-to-cash to digital and we thought it would be a long transition. So looking back, I think we should accelerate it even more.

2. What are the main obstacles for FinTechs in terms of expanding to far-flung areas and reach these SMEs?

Arvie: There are over seven thousand islands in the Philippines, hence the biggest challenge for us is adaptation to each geographic area. There are different adaption challenges in each area and cultural nuances, which really makes it difficult for a fintech that works in one region to work equally well in another. A lending FinTech that works in the mountains will be very different from a lending FinTech that works by the ocean.

Adrian: We work with various digital ecosystems, for example, the largest Indonesian e-commerce platform with around four million SMEs on it. Many of these SMEs are located in remote areas outside of Java, the main island of Indonesia. The e-commerce platform actually allows us to verify and validate the transaction history of the SMEs in remote area. Secondly, in terms of the retainment, the repayment amount is deducted through the wallet of the e-commerce and we share the fees based on it.

This approach is called embedded FinTechs, meaning they are embedded into other digital ecosystems.

Mohamed: The Middle East is a quite diverse region and many countries have a very scattered population. We have created a strong partnership with distributors, which allows us to reach the remote areas. And one of the key things we have done is reducing the cost of lending. Because of the technologies that we apply, including smart contracts, the cost of investigating the loan is reduced and the interest rates is pushed down.

3. How does social media play a role in the issue of illegal lenders, especially during the pandemic? And what are the most effective channels?

Adrian: I think the current problems stem from the lack of financial literacy in the country. In Indonesia, there are more than 200 million people. The illegals are targeting different tiers of the pyramids in terms of the economic level. Many are lured by the 'ability' to access fast cash. We actually made efforts to educate the market that if you want to transact, you have to ensure that the platform is registered and licensed with a logo. We amplify these things through media. And we are still collaborating with them to educate the public, including both printed and online. Now we are working with the government to finalize the bill regarding consumer data protection, an Indonesian of General Data Protection Regulation (GDPR). Hopefully it will enable us to have a more comprehensive legal framework against the illegal online lender. There will be clear sanctions as well as punishments, which will obviously be a deterrent for these illegal activities.

Among all social media, Facebook and Instagram are the most effective channels. We developed content videos about illegal lenders with the regulators. We provided webinars and digital content on YouTube to encourage people only to transact with legal lenders.

Kelvin: The channels that work effectively actually diverse in each country. We managed to get a lot of investors from YouTube by engaging a YouTube celebrity to talk about fintech lending and introduce us. Hence, we realized that different social media channels across different markets are extremely important. Especially when we are managing a regional platform in countries with different social, economic, and demographic environment. For us, it is a combination of different channels based on a specific country.

4. When you have a bank-fintech partnership, do you expect a merger or acquisition as the final objective? Or do you expect to remain an independent fintech that works with different banks? What do you regard as a success from the business perspective?

Mohamed: I think forging partnerships with banks is obviously an important milestone in what we are doing, but ultimately it becomes a dilemma whether you want to work with a single bank in the country or you want to work with multiple banks with competitive platforms. Both ways have pros and cons and you have to find what is the best path for you. Sometimes you need to test out the market and see if you can work form relationships with a few banks just to make sure you have a better offering for your perspective clients. It is indeed a challenge since some banks do want to own the solution or the platform exclusively.

Kelvin: It is a challenge. Our preference is to stay independent, but we also recognize the market constraints. We have seen a lot of fintechs have been acquired by banks in recent times. If it is needed to be acquired to fulfill the vision or to help with the financial inclusion of the SMEs in Southeast Asia, then I think it is a solution that we are also open to. So for us, it is really about what will allow us to maximize both the impact on the region as well as to achieve what we are set up to do.

Adrian: What is unique about us is that have four banks partners and each of them has specific niche. And this is one of our considerations when we did our last fundraising. I think it's always good to have a bank as part of your cap table, for example, access to capital and network. In countries such as Indonesia, you need credibility. And the banks can bring that credibility factor, which enables us to scale the business even further. Since they are not major players, we can still partner with any of them. But you need to have at least a cornerstone relationship with some of these banks that are part of our shareholders.